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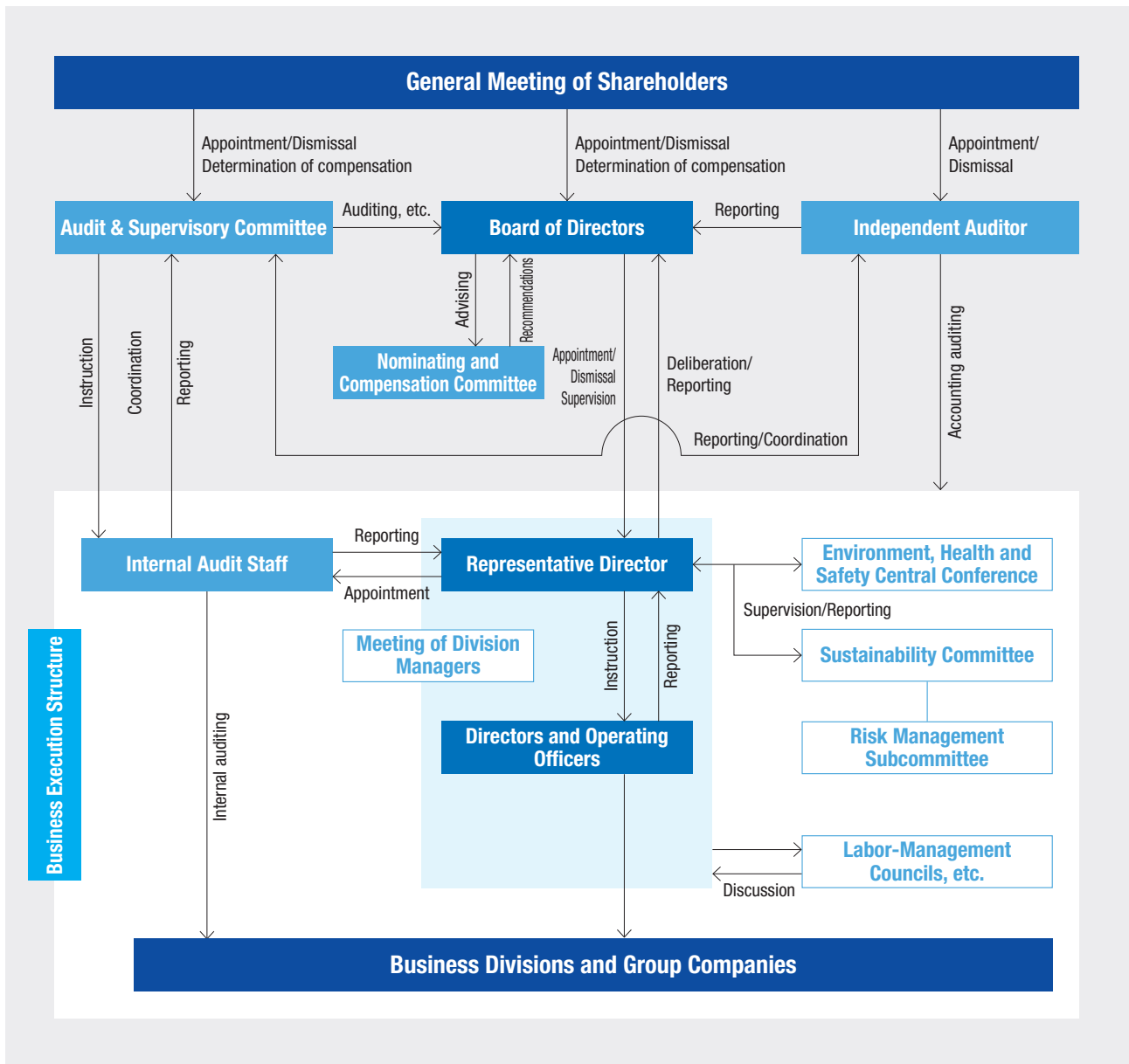
Corporate Governance



Basic Stance on Corporate Governance

The EKK Group's basic management tenets are that a company (1) belongs to not only shareholders but also its employees and society, (2) should generate profit and pride for all stakeholders, including its customers, suppliers and financial institutions in addition to its employees and (3) must never pursue short-term profits at the expense of long-term interests. To live up to these tenets, the Group conducts business activities to continuously become a stronger, more profitable company by producing and achieving worldwide sales of unique and socially useful products backed by its technologies in accord with a spirit of compliance.

The Group believes that building a corporate governance regime comprehensively optimized to the prevailing business environment and the specifics of its operations is essential as a foundation to support such operations.



Overview of and Rationale behind Corporate Governance Regime

At the Ordinary General Meeting of Shareholders held on June 25, 2024, a resolution was passed to amend the Articles of Incorporation to transition to a company with an Audit & Supervisory Committee, and as a result, the Company transitioned from a company with an Audit & Supervisory Board to a company with an Audit & Supervisory Committee on the same date.

With this transition, decision-making authority for important business execution is delegated to the directors, speeding up decision-making and strengthening the supervisory function of the Board of Directors, thereby further enhancing corporate governance.

In addition, EKK adopted the operating officer system in June 2009, and the Board of Directors has changed to a smaller number of members and has worked to improve its effectiveness by fostering an atmosphere of lively, peer-to-peer discussion at Board of Directors' meetings, including monitoring of the directors' execution of duties. With the transition to a company with an Audit & Supervisory Committee, we will further strengthen monitoring of the Board of Directors by directors who are Audit & Supervisory Committee members and have voting rights at Board of Directors' meetings.

The Audit & Supervisory Committee is set up and configured as an oversight body independent of management. Directors who are Audit & Supervisory Committee members exercise full-spectrum oversight of the Company's operations by not only attending and participating in Board of Directors' meetings but also attending meetings of other key internal entities, regularly conducting internal audits of not only the Company but also its affiliates, and reviewing implementation and reports of internal audits conducted by internal audit staff appointed by the president. In light of such, the Company deems its corporate governance to be effective and accordingly elects to maintain the status quo.

Overview of Internal Entities Involved in Governance

Board of Directors

The Board of Directors generally meets monthly. It makes decisions on important matters and oversees operational execution.

Audit & Supervisory Committee

The Audit & Supervisory Committee makes decisions on audit policies, plans, methods, and other important audit-related matters, and the committee audits the directors' performance of their duties in accordance with these decisions.

The committee, in cooperation with the internal audit staff appointed by the representative director and president, audits the business execution units.

Nominating and Compensation Committee

The Nominating and Compensation Committee was established to advise the Board of Directors. The committee comprises the Board chairman and outside directors. It regularly monitors matters of particular importance, mostly director and Audit & Supervisory Committee member nominations and compensation, and appropriately advises the Board of Directors.

Meeting of Division Managers

The Meeting of Division Managers comprises directors, operating officers, division managers, business unit heads and their respective deputies. It meets monthly with standing Audit & Supervisory Committee members in attendance to review operational matters and decide which, if any, to refer to the Board of Directors.

Labor-Management Councils, etc.

Various committees comprising representatives of labor and management, including the Central Labor-Management Council, meet on an ad hoc basis for briefings on and discussions of matters such as business plans, significant reorganizations and management initiatives.

Sustainability Committee

The Sustainability Committee is chaired by the president and made up of the heads of organizational units and senior managers. The committee determines targets for the Group's sustainability activities and evaluates activity status with the aim of realizing a sustainable society. The committee also reports on activity status to the Board of Directors.

Furthermore, with the aim of discovering and preventing business activity risks, the Risk Management Subcommittee has been established under the Sustainability Committee to identify latent risks inherent in business activities and verify the effectiveness of safeguards against such risks.

Environment, Health and Safety Central Conference

The Environment, Health and Safety Central Conference checks on how environmental management and health and safety activities are promoted in business activities.

Internal Audit Staff

Nominated by the president, internal audit staff work to develop internal control systems and also periodically conduct audits of organizational units and affiliates.

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Directors

Name	Positions and responsibilities	Fields of expertise						
		Corporate management	Business strategy	Business sales	Finance and accounting	Technological R&D	Internationality	ESG
Tetsuji Tsuru	Chairman of the Board and President, Representative Director	●	●		●		●	
Masaki Nakao	Representative Director, Vice President, General Manager of Defense Business Corporate Office	●	●				●	
Shinji Abe	Representative Director, Senior Managing Director, General Manager of Safety, Environment & Quality Control Office			●				●
Norio Uemura	Representative Director, Senior Managing Director, General Manager of Engineering Division			●		●		
Masahide Shimada	Senior Managing Director, AI/CI Division General Manager and General Manager of Nuclear Power Business Corporate Office		●				●	
Hidetaka Yamamoto	Senior Managing Director, Manager, Corporate Sales & Marketing Division		●	●				
Ryota Nakazawa	Senior Managing Director, General Manager of Corporate Strategic Planning Office, Deputy General Manager of Defense Business Corporate Office		●				●	
Makoto Kikkawa	Outside Director	●			●			
Yasumitsu Iba	Director Standing Audit & Supervisory Committee Member				●		●	
Katsuhiko Shono	Outside Director Audit & Supervisory Committee Member		●			●		
Masako Sakaguchi	Outside Director Audit & Supervisory Committee Member						●	●
Takashi Koike	Outside Director Audit & Supervisory Committee Member	●	●					

Outside Directors and Outside Audit & Supervisory Committee Members

Outside Directors

Expected roles	
Makoto Kikkawa	<p>FY2023 board meeting attendance: 10/10 meetings (Appointed June 27, 2023)</p> <p>Mr. Kikkawa has abundant experience and extensive knowledge in corporate management in financial institutions and business companies. We expect him to continue providing supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective. Therefore, we have appointed him as an outside director. He is involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p>
Katsuhiko Shono	<p>FY2023 board meeting attendance: 10/10 meetings (Appointed June 27, 2023)</p> <p>Mr. Shono is expected to provide supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective based on his vast amount of experience in the industrial machinery field and high principles. In addition to him being appointed as an outside director, he is involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p> <p>At the FY2023 Ordinary General Meeting of Shareholders held on June 25, 2024, he was newly appointed as a director who is an Audit & Supervisory Committee member.</p> <p>Although he has no previous involvement in the management of a company other than as an outside officer, we deem that he is capable of appropriately performing the duties of an outside director for the reasons above.</p>
Masako Sakaguchi	<p>FY2023 board meeting attendance: 10/10 meetings (Appointed June 27, 2023)</p> <p>Ms. Sakaguchi is expected to provide supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective based on her vast amount of experience and extensive insight as an attorney. In addition to her being appointed as an outside director, she is involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee. She also conducted a meeting to exchange opinions with female managers to promote women's empowerment and provide advice on the future direction of initiatives.</p> <p>At the FY2023 Ordinary General Meeting of Shareholders held on June 25, 2024, she was newly appointed as a director who is an Audit & Supervisory Committee member.</p> <p>Although she has no previous involvement in the management of a company other than as an outside officer, we deem that she is capable of appropriately performing the duties of an outside director for the reasons above.</p>
Takashi Koike	<p>Appointed at the FY2023 Ordinary General Meeting of Shareholders held on June 25, 2024</p> <p>Mr. Koike has abundant experience and extensive knowledge in corporate management in business companies. We expect him to provide supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective. Therefore, we have newly appointed him as an outside director who is an Audit & Supervisory Committee member.</p> <p>He will be involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p>

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Activity Status and Effectiveness Evaluation of the Board of Directors

The Board of Directors held 14 meetings in FY2023 to discuss important management matters, as well as to submit resolutions and reports in accordance with laws and regulations, the Articles of Incorporation and the rules of the Board of Directors.

(1) Specific items considered at the Board of Directors' meetings

(Resolutions) In addition to matters for resolution required by laws, regulations and the Articles of Incorporation, the Board of Directors deliberated and made decisions on 42 matters for resolution based on our rules of the Board of Directors, including the Group's management and sales plans, important capital investments, other companies' guarantees and financing plans.

(Reports) In addition to reporting matters required by laws, regulations and the Articles of Incorporation, 17 reports were made on the status of our internal controls, activities of each committee and other important matters related to the execution of business operations.

(2) Effectiveness evaluation of the Board of Directors

With regard to the effectiveness evaluation of the Board of Directors, a report on the Board of Directors' activities in FY2023 was presented at a Board of Directors' meeting held in June 2024, where opinions were exchanged and discussions were held among directors and Audit & Supervisory Board members. The resulting assessment is that the Board of Directors' effectiveness has been appropriately secured.

Appointing Directors and Determining Compensation

To increase objectivity and transparency around director nomination and compensation-setting processes in accord with Japan's Corporate Governance Code, EKK has established the Nominating and Compensation Committee comprising the chairman of the Board of Directors and outside directors as an advisory body of the Board of Directors.

The Nominating and Compensation Committee generally meets twice each fiscal year. The committee appoints directors by reviewing the appointment/dismissal standards as well as the director candidates based on these standards. Regarding compensation, the committee reviews the Policy for Determining Officer Compensation, etc. considers factors such as the proportion of short-term performance-linked compensation for each fiscal year, and offers advice and feedback to the Board of Directors.

Nominating and Compensation Committee Activities

Month	Actions
Feb. 2024	<p>Nominations: Director appointment/dismissal standards and succession plan policy reviewed and discussion held</p> <p>Compensation: Policy for Determining Officer Compensation, etc. reviewed and the proportion of short-term performance-linked compensation for FY2023 considered</p>
May 2024	<p>Nominations: Director and Audit & Supervisory Committee member candidates to be proposed at FY2023 Ordinary General Meeting of Shareholders vetted and discussion held</p> <p>Compensation: Compensation amounts for directors (excluding directors who are Audit & Supervisory Committee members) and directors who are Audit & Supervisory Committee members reviewed and discussion held</p> <p>Proposal of Policy for Determining Officer Compensation, etc. after transition to a company with an Audit & Supervisory Committee reviewed and discussion held</p>

Policy for Determining Officer Compensation, etc.

EKK has established the policy below for determining director compensation. Compensation for directors (excluding directors who are Audit & Supervisory Committee members) is determined by the Board of Directors, and compensation for directors who are Audit & Supervisory Committee members is determined via thorough discussions with directors who are Audit & Supervisory Committee members at the Audit & Supervisory Committee meeting, within the total amount decided at the General Meeting of Shareholders based on this policy.

To enhance objectivity and transparency regarding Board of Directors' and Audit & Supervisory Committee members' nomination and compensation, the Company has established the Nominating and Compensation Committee, comprising the chairman of the Board of Directors and outside directors, as an advisory body of the Board of Directors. The committee regularly monitors matters of particular importance, such as Board of Directors' and Audit & Supervisory Committee members' nomination and directors' compensation, and provides appropriate recommendations to the Board of Directors. The Company's policy regarding determining compensation, etc. for directors is as follows.

a. Method of determining policy

The policy on compensation for directors (excluding directors who are Audit & Supervisory Committee members) is determined by the Board of Directors, taking into account the advice of the Nominating and Compensation Committee. The policy on compensation for directors who are Audit & Supervisory Committee members is determined at the Audit & Supervisory Committee meeting through discussions with directors who are Audit & Supervisory Committee members.

b. Basic policy

The Group seeks to grow stronger and more highly profitable by making unique and socially useful products backed by its technologies at a low cost around the world and providing them at reasonable prices. We believe that pursuing this policy from a medium- to long-term perspective will contribute to improving the Group's medium- to long-term corporate value and increase stakeholder satisfaction.

In carrying out this policy, we believe that it is necessary for us to promote the motivation of the management team, including the directors of the Company, to achieve performance targets and stakeholder satisfaction from the standpoint of compensation. For that reason, we have decided to introduce treasury stock compensation for the Company's management that varies to a certain extent according to the degree of achievement of key performance indicators (KPIs) related to the priority measures in the Group's medium-term management plan. Balancing this with monetary compensation that varies according to the degree of achievement of performance targets for each fiscal year, we aim to improve corporate value and stakeholder satisfaction over the medium to long term.

c. Policy for determining amount of individual compensation, etc., and method of calculation

Considering their responsibilities in improving performance in each fiscal year and increasing corporate value over the medium to long term, compensation for directors (excluding outside directors and directors who are Audit & Supervisory Committee members) is broken down into three categories. These are base pay (monetary), short-term performance-linked compensation (monetary) and medium- to long-term performance-linked compensation (stock), comprised of fixed compensation, expectations for short-term results and expectations for long-term results. On the other hand, outside directors who are not Audit & Supervisory Committee members are expected to provide objective opinions and suggestions from an outside perspective that is independent from business execution, so in light of this, they are only paid base pay (monetary). In addition, compensation for directors who are Audit & Supervisory Committee members is base pay (monetary) only according to position as they are responsible for auditing and supervising the execution of duties for the Group as a whole. Compensation may be temporarily reduced or not paid at all in the event of a sudden worsening of performance or damage to corporate value.

The compensation system for the Company's directors is set up in such a way that compensation differs according to the responsibilities of the position (chairman, president, vice president, managing director, etc.). The difference currently applied is where managing directors are 1 and the chairman and president are about 1.6 when the short-term/long-term results portion is the standard amount.

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d. Policy for setting quantitative formulas for and determining other details of performance-linked compensation, including performance benchmarks

Performance-linked compensation is paid in an amount ranging from 0% to 200% of a baseline level, depending on performance relative to evaluation criteria.

When determining short-term performance-linked compensation, it is the Company's judgment that maintaining and improving the profit level is the most appropriate indicator of corporate performance. As such, the degree of achievement of the initial operating profit plan, dividend amount, employee bonus amount and other matters impacting performance (natural disasters, extraordinary gains/losses, etc.) are considered.

The indicators of medium- to long-term performance-linked compensation are return on invested capital (ROIC) (financial indicator) and the FTSE Russell ESG score (non-financial indicator) to increase overall profitability of the Group and promote ESG management. The weight given to these items is 90% and 10%, respectively.

e. Policy for determining the content, amount, number or method of calculating non-monetary compensation, etc.

For medium- to long-term performance-linked compensation, we utilize the officer compensation Board Incentive Plan (BIP) trust system in order to increase the motivation of directors to contribute to improving the Group's medium- to long-term performance and increasing corporate value. This plan is a system for issuing and paying the shares of the Company and share exchange price at disposal of the Company (hereinafter referred to as "the Company's shares, etc.") in a number corresponding to points calculated according to position/length of service and the degree of achievement, etc., of medium-term targets to eligible directors (excluding outside directors and directors who are Audit & Supervisory Committee members) and operating officers following the Rules for Issuance of Shares approved by the Board of Directors.

f. Policy for determining the ratio (percentage) of each type of individual compensation, etc.

The Company's business domain is the manufacture and sale of mechanical seals, special valves, etc., and other mechanical parts in industries that include automobiles, construction equipment, general industrial machinery, semiconductors, ships and aerospace. Considering that business performance is easily affected by trends in these industries, the percentages of short-term performance-linked compensation and medium- to long-term performance-linked compensation for directors (excluding outside directors and directors who are Audit & Supervisory Committee members) are 10% and 20% of total compensation, respectively.

g. Policy for determining the timing or terms of compensation payments

Monthly base pay is determined by the Board of Directors after the Ordinary General Meeting of Shareholders for one year beginning from the following month and is paid in a fixed amount on a fixed day every month. Short-term performance-linked compensation is determined by the Board of Directors based on the year-end financial results in accordance with the abovementioned "Policy for setting quantitative formulas for and determining other details of performance-linked compensation, including performance benchmarks." It is paid by the time of the Ordinary General Meeting of Shareholders for the financial results in question. As for medium- to long-term performance-linked compensation, following the Rules for Issuance of Shares approved by the Board of Directors, a fixed number of points calculated according to position and length of service and performance-linked points designed to incentivize achievement of the medium-term management plan, etc., are granted at a certain time every year. In principle, when the medium-term management plan ends, a number of the Company's shares, etc., corresponding to the cumulative number of fixed points and a number of the shares, etc., corresponding to the cumulative number of performance-linked points multiplied by a performance-linked coefficient according to the degree of achievement of medium-term targets are issued and paid.

h. Policy for and method of determining individual compensation

The Board of Directors sets compensation amounts for individual directors (excluding directors who are Audit & Supervisory Committee members) and the methods whereby they are set, taking into account recommendations of the Nominating and Compensation Committee. Officer compensation proposals are tabled by the Board's chairman.

The compensation amounts for directors who are Audit & Supervisory Committee members are determined at the Audit & Supervisory Committee meeting through discussions with directors who are Audit & Supervisory Committee members.

General Meeting of Shareholders Approval of Officer Compensation, etc.

At the FY2023 Ordinary General Meeting of Shareholders held on June 25, 2024, shareholders approved resolutions capping the amount of aggregate compensation for directors (excluding directors who are Audit & Supervisory Committee members) at ¥550 million per year (of which, ¥40 million for outside directors) and the amount of aggregate compensation for directors who are Audit & Supervisory Committee members at ¥100 million per year.

At the FY2021 Ordinary General Meeting of Shareholders held on June 23, 2022, shareholders approved a performance-based stock compensation plan (hereinafter referred to as “the Plan”) for the Company’s directors (excluding outside directors; the same applies hereinafter) and operating officers (excluding those not residing in Japan; hereinafter referred to as “Directors, etc.”). An overview of the Plan is provided below. The Plan’s compensation is paid to Directors, etc., separately from the above director compensation amounts (¥550 million per year).

In accordance with the approval of the resolution “Amendment to the Articles of Incorporation” at the FY2023 Ordinary General Meeting of Shareholders held on June 25, 2024, the Company transitioned to a company with an Audit & Supervisory Committee, and as a result, those eligible for the Plan were revised to the Company’s directors (excluding directors who are Audit & Supervisory Committee members, outside directors, and those not residing in Japan; the same applies hereinafter) and operating officers (excluding those not residing in Japan; hereinafter referred to as “Directors, etc.”).

a. Overview of the Plan

The Plan is a stock compensation plan for Directors, etc. The Company will contribute an amount corresponding to the compensation for Directors, etc., to a trust, and these funds will be used to purchase shares of the Company through the trust. Shares of the Company and share exchange price at disposal of the Company (hereinafter referred to as “the Company’s shares, etc.”) are issued and paid (hereinafter referred to as “issuance, etc.”) as officer compensation according to position and the degree of achievement, etc., of the performance targets (details of the Plan are described in (b) below and thereafter).

Eligibility for issuance, etc., of the Company’s shares, etc., under the Plan

- The Company’s directors (excluding directors who are Audit & Supervisory Committee members, outside directors, and those not residing in Japan)
- The Company’s operating officers (excluding those not residing in Japan)

b. Impact of the Company’s shares subject to the Plan on the total number of outstanding shares

Maximum amount to be contributed by the Company

- ¥300 million multiplied by the number of fiscal years in the relevant period
- The first relevant period will be four fiscal years for a total of ¥1,200 million (the first relevant period is the four fiscal years from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2026)

Maximum number of the Company’s shares to be issued, etc., to Directors, etc., and method of purchasing the Company’s shares, etc.

- 400,000 shares multiplied by the number of fiscal years in the relevant period
- The first relevant period will be four fiscal years for a total of 1.6 million shares
- The above number of shares per fiscal year (400,000 shares) accounts for approximately 0.9% of the Company’s total number of outstanding shares (as of March 31, 2024, after deduction of treasury shares)
- The Company’s shares are to be acquired from the stock market or the Company (treasury share disposal) (the Company’s shares for the first relevant period are to be acquired from the stock market, so there will be no dilution)

Performance achievement conditions

- Varies between 0% and 200% according to the degree of achievement, etc., of important indicators for achieving performance targets in the medium-term management plan and other indicators established by the Board of Directors (in the first relevant period, the degree of achievement of ROIC and FTSE Russell ESG score)

Timing of issuance, etc., of the Company’s shares, etc., to Directors, etc.

- After the end of the relevant period

FY2023 Officer Compensation

Position	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			No. of eligible recipients (Persons)
		Base compensation	Performance-linked compensation, etc.		
			Short-term	Medium- to long-term (non-monetary compensation)	
Directors (of which, outside directors)	326 (28)	246 (28)	16 (–)	63 (–)	12 (6)
Audit & Supervisory Board members (of which, outside Audit & Supervisory Board members)	54 (9)	54 (9)	–	–	6 (3)
Total	380 (38)	300 (38)	16 (–)	63 (–)	18 (9)